

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6910

BILL NUMBER: SB 345

NOTE PREPARED: Jan 7, 2006

BILL AMENDED:

SUBJECT: Reversal of Payment Delays.

FIRST AUTHOR: Sen. Meeks

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires the reversal of part of the payment delays in the schedule under which: (1) Property Tax Replacement Credit (PTRC) and Homestead Credit (HSC) amounts are distributed to taxing units; and (2) distributions to state educational institutions, the Indiana Higher Education Telecommunications System (IHETS), school corporations, and charter schools are made. It permits additional distributions to eliminate the remainder of the accrued delayed payments. The bill repeals conflicting language. It also makes an appropriation.

Effective Date: July 1, 2006; January 1, 2007.

Explanation of State Expenditures: *Background - Original Payment Delay:* Under current law, school corporations receive 12 tuition support payments per year from the state. One of these 12 payments was delayed in FY 2002.

The state also currently makes six PTRC/HSC distributions to counties each calendar year from the Property Tax Replacement Fund (PTRF). Under HEA 1001-2001, the May 2001 distribution was delayed until July 2001. Under HEA 1001-2002(ss), the May-July delay was extended to all years beginning in CY 2002. The payment that was moved is equal to 16.6% of the total annual payment.

The FY 2002 appropriation for higher education was reduced by 1/12. Since universities operate on a fiscal year budget, instead of a calendar year budget like schools and other units of local government, this was a reduction in revenue for universities' FY 2002 budgets.

Background - 2005 Budget Bill Action: The current budget bill, P.L. 246-2005, requires the State Budget Agency to repay up to ½ of the payments delays during the FY 2006-FY 2007 biennium if there are sufficient funds available. An early distribution of 50% of the tuition support payment delay balance will equal about \$156 M and an early distribution of 50% of the PTRC/HSC payment delay balance will equal about \$184 M, for a total estimated distribution of \$340 M at the full 50% amount. However, the Budget Agency may reduce the percentage that is to be repaid if there are insufficient balances to fund repayments of 50%. No additional payments have been made to date.

Bill Summary: This bill repeals the repayment language in the current budget bill (P.L. 246-2005), replaces it with a new provision allowing a supplemental distribution, and speeds up the statutory PTRC/HSC payment schedule. This bill appropriates \$150 M in FY 2007 for additional distributions of PTRC/HSC, tuition support, and general repair and rehabilitation of state educational institutions. In addition to these appropriations, the bill *allows* the State Budget Agency to make other distributions to reduce the balance of the payment delays and appropriates the amount needed as determined by SBA. The bill appropriates the amount needed to make the supplemental distributions.

PTRC/HSC: Beginning in CY 2007, the bill would change the PTRC/HSC distribution amounts for April and July. The April payment will be increased from 16.7% to 19.6% of the total calendar year expenditure, and the July payment would be reduced from 16.6% to 13.7%. This provision would shift 2.9% (about \$65 M) of the total CY 2007 distribution from FY 2008 to FY 2007. This schedule would continue for future years.

In addition to the \$65 M distribution shift, the SBA *may* make another distribution of PTRC/HSC not to exceed 13.7% of the PTRC/HSC payments between January 1, 2007, and June 30, 2007. The amount of the current PTRC/HSC payment delay (from FY 2006 to FY 2007) is estimated at about \$368 M. The revised distribution schedule in this bill would reduce the amount of the delay to an estimated \$303 M. The additional distribution of up to 13.7% allowed in the bill would eliminate the rest of the PTRC/HSC payment delay if made in full. The cost of this optional payment is estimated at about \$303 M at the full 13.7%.

Tuition Support: The bill appropriates an additional \$65 M of tuition support for FY 2007 that would be distributed to school corporations and charter schools between January 1, 2007, and June 30, 2007. In addition to the \$65 M distribution, the SBA *may* make another supplemental early distribution of tuition support before July 1, 2007, to cover the remaining balance of the payment delay. Based on the current school funding formula, the total cost estimate to reverse the payment delay to local schools is about \$312 M. After the initial \$65 M distribution under this bill, the remaining cost of eliminating the tuition support payment delay (and optional payment amount) could be as much as \$247 M.

Higher Education: The bill also appropriates \$20 M to universities for general repair and replacement. The payment of the \$20 M is to reduce any claim that universities have due to the payment delay in FY 2002. In addition to the \$20 M distribution, the SBA *may* make another supplemental distribution to a state education institution to eliminate the remaining higher education payment delay. The total cost estimate to reverse the payment delay to universities is about \$112.8 M. After the initial \$20 M distribution under this bill, the remaining cost of eliminating the higher education payment delay (and optional payment amount) could be as much as \$92.8 M.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Total local unit and school corporation revenues for a calendar year would remain unchanged. Some state credit payments would be received earlier in the calendar year than under current law.

State Agencies Affected: Commission for Higher Education; State Auditor; Department of Local Government Finance; Department of Education; State Universities; State Budget Agency.

Local Agencies Affected: Counties and Local Schools.

Information Sources:

Fiscal Analyst: Chuck Mayfield, 317-232-4825; Bob Sigalow, 317-232-9859.